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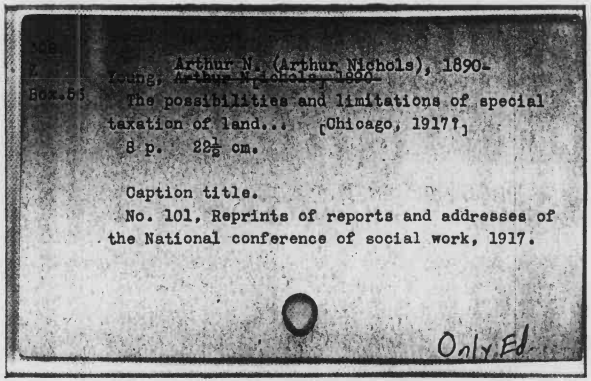
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THE POSSIBILITIES AND LIMITATIONS OF SPECIAL TAXATION OF LAND*

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After more than a generation of ardent propaganda, Henry George's proposal "to abolish all taxation save that upon land values"[1] remains an academic question. In the first place no very large share of the public is convinced of the desirability of doing away with taxes upon inheritances, incomes, corporations and commodities. With the whole world at work devising "cruel and unusual" types of taxes for raising war revenues, the prospect of governments limiting themselves to any single tax is not bright. And in the second place, Henry George's conviction that "private property in land is a bold, bare, enormous wrong, like that of chattel slavery"[2] and the resulting proposal that the state should confiscate *in toto* the value of all private investments in land does not appear to make many new converts. The millions saved from earnings and invested in land would be seized upon, while millions of unearned increments gained from land speculation and invested in other ways would be spared. Even granting that profits of land speculation are evil, they can be reached only in small part by depriving present owners of their land values.

But, although the full single tax has not gained in favor, the last ten years have witnessed a great growth of interest in this country in the issues raised by Henry George. This new interest, however, is not so much in the orthodox single tax as in proposals for exemption of improvements from taxation and for special taxation of land. To the minds of many earnest students of social problems these measures give promise of remedying much of the evil of city congestion, housing and poverty. This question has received increasing attention in books, periodicals and newspapers, it has been specially investigated by tax commissions and other public officials, and on this issue more than a score of political campaigns have been fought. Notwithstanding this considerable interest, however, there are but two laws of this sort at present in the United States. By virtue of an act of the Pennsylvania legislature of 1913 the cities of Pittsburgh and Scranton are directed to reduce the rate of tax upon buildings ten per cent every three years so that by 1925 the rate will be half that upon land. And in North

*No. 101 Reprints of Reports and Addresses of the National Conference of Social Work, 1917 Meeting at Pittsburgh. Order by number. Write for descriptive list of publications, 315 Plymouth Court, Chicago, Ill.

1. *Progress and Poverty*, memorial edition, p. 404.
2. Ibid., p. 356.

Dakota a result of single tax influence in the farmers' political movement has been a rather peculiar law of last March by which land is assessed at thirty per cent of full value, and most other property at twenty per cent; excepting that "structures and improvements upon farm land" are assessed at only five per cent.[3]

What have been the causes of this growing interest, and, it may be added, of the growing belief that land should be subject to special taxation? One important factor has been the increasingly active propaganda by single taxers. In 1909 the Joseph Fels Fund was established and the generous gifts of its founder, together with the gifts of those whose contributions he "matched," have made possible systematic propaganda, including the series of political campaigns mainly in the western states. Another factor has been the advocacy of those who, following John Stuart Mill, have urged taxation of the future "unearned increment" in land values. A more important factor, however, has been the fact that in the last forty years interesting experiments in special taxation of land and exemption of improvements have been made in certain European countries and in Australasia and Canada.

Let us summarize briefly the extent of this movement.[4] In Australasia the first special land tax was levied by New Zealand in 1878. At present special land taxes, mainly with progressive rates, are levied by the federal government and by every state but Queensland, while a large number of the local political units exempt improvements from taxation. In Germany the *Wertzuwachssteuer,* or tax on unearned increment, was first adopted by Frankfort a. M. in 1904. The employment of this form of tax spread so rapidly in Germany that in 1911, at the time of the adoption of the imperial tax on unearned increment which largely supplanted it, 652 local governments had enacted it. In England the notable Lloyd-George budget of 1909 levied special taxes upon the future increase of land values and upon undeveloped land. Canada's experience, like that of Australasia, began in the seventies when in 1873 British Columbia adopted a wild-land tax and the following year granted a charter to Nanaimo on Vancouver Island under which that town has exempted improvements since its founding. Today nearly all of the municipalities in the three western provinces of Canada tax improvements at a lower rate than land, many having total exemption, and there are also special provincial land taxes. In addition to these tax arrangements special exemptions and concessions in taxation are granted in favor of workmen's dwellings and building associations in Australasia and nearly every country of Europe.[5]

3. Popular edition (unauthenticated), *Session Laws of North Dakota,* 1917, p. 174. The provisions of the law are quite complicated. Cities are granted the option to reduce assessment of improvements to five per cent.

4. The best general summary of the special land taxes in force in the various countries is Scheffel's *The Taxation of Land Value,* Boston, 1916.

5. *Cf.* Bulletin 168, U. S. Bureau of Labor Statistics, *Government Aid to Home Owning and Housing of Working People in Foreign Countries.*

Of these measures those that have attracted most attention in this country have been the exemption of improvements from taxation in the cities of western Canada. This region prospered at an accelerating rate in the decade prior to 1912-13, the prosperity coinciding with a pronounced movement to reduce or abolish the tax upon improvements. Just as in previous years ardent advocates had claimed that special land taxes and exemption of buildings were responsible for rapid development in Australasia, so now these were claimed to be a demonstrated prosperity policy in western Canada. Advertisement of this claim first began to be prominent about 1910, the year in which Vancouver exempted the final twenty-five per cent. of the value of buildings. Beginning with 1911 the *Single Tax Review* issued a series of special numbers dealing with the prosperity of Vancouver, Edmonton and other "single tax" localities, and propagandist literature dwelt enthusiastically upon this theme. Population estimates, bank clearings, and building statistics were grist for the single tax mill. Here at last was proof positive that the single tax was the panacea that its supporters had always claimed it to be.

But all good things have an end, and during 1913 expansion came to a stop. New construction ceased, unemployment became widespread, and population estimates had to be revised downward. Migration from the "unenlightened" states into Canada, which it had been argued would deprive America of her prosperity unless we, too, were to untax buildings, reversed its direction. Then in turn opponents of the policy had their innings, and they did not fail to charge that it led to unhealthy stimulus, overbuilding, and a deeper depression than would otherwise have followed the boom.

Now we are sufficiently far from these controversies to look upon the issues involved with a calmer vision. We may now inquire what things this experience has established as to the effects of this legislation.

It has become almost a trite saying in economics that the forces determining any given economic situation are so complex that the precise effects of any one of them can not be isolated. The exact economic and social influence of the tax policy of places where special land taxes have been in force cannot possibly be measured. Taxation is but one of the complex of forces. Other forces, such as development of transportation, liberal land policy of government or railroads, opening up of new natural resources, immigration, foreign trade, political conditions and legislation, changes in prices and the like, are of equal or greater significance. The estimation of the effects of these particular tax changes is further complicated in some cases because other important changes in the tax system were made at the same time or just before, as when some of the Australasian states altered the basis of land taxation from rental to capital value or when Pittsburgh abolished an obsolete scheme of real estate classification just prior to the adoption of partial exemption of improvements. These facts must be borne in mind in appraising the evidence as

I

to the working of these measures, as well as the fact that further experience may be expected to shed further light upon the subject.

The most evident fact to the impartial observer is that both parties to the controversy have for the most part grossly overstated the effects of the taxes. The disputants have not been able to resist the temptation of the insidious fallacy of reasoning known as *non causa pro causa,* taking for a cause that which may not be a cause. Increase in building statistics and bank clearings does not prove that exemption of improvements was responsible for the prosperity of the Canadian West prior to 1912-13. During the years of Vancouver's greatest growth, 1908-12, building and bank clearings in Los Angeles, for example, increased at nearly as rapid a rate, the actual value of new buildings being two-thirds greater in the California city. On the other hand opponents cannot conclude because the depression in Canada hit the single tax cities far harder than the non-exempting cities that this difference was due to the difference in tax systems; it would seem to be due in the main to the greater business conservatism of the latter cities, which are mainly in the East. Nor can we accept without question the view of those who charge that the Lloyd George land taxes of 1909 caused the considerable decrease of building that occurred in England in following years. But in the matter of overstatement advocates have erred more than opponents.

II

Exemption of buildings tends to stimulate their construction. This generalization is based as much upon general theories as upon deductions from the experience of places that have untaxed buildings. Where buildings are taxed, the tax becomes a cost that prospective builders must consider along with costs of land, materials and labor. Doing away with this tax cost tends to make it more profitable for men to put their capital into buildings as compared with other possible investments. On the principle that profits tend to equalize in all lines of investment, a new moving equilibrium will be reached in which a relatively larger share of capital seeking investment will be put into buildings.

Three things, however, should be noted. (1) Unless exemption provides new motives for the increased productive activity of men or for increased saving, the additional investment in building is either at the expense of other lines of trade, e. g., railroads, mines, stores, etc., or at the expense of other localities. Tax exemption of factories in particular towns or states, with which America has had a full but little known experience, obviously tends to attract new capital. In so far as it changes the natural distribution of industries it may have the effect of artificially diverting productive effort from more productive to less productive lines, the same as a protective tariff. But general exemption of improvements cannot be expected to affect very appreciably the total

amount of wealth produced. (2) Exemption does not guarantee a building boom, since the mere absence of the tax is not a strong enough economic force to lead to increased building if conditions of growth and prosperity are not favorable. In Western Canada not every reduction in taxation of buildings has been accompanied by increased activity, nor has the fact that improvements are largely free of tax prevented extreme stagnation in the building trade since 1913. (3) If exemption comes in connection with a wave of land speculation and a building boom it may prove an unhealthy stimulus. Paradoxically the movement for exemption in Western Canada was fostered and furthered by the very land speculators against whom the single taxer is wont to direct his wrath, since they believed that anything that furthered building would help to increase the value of their land.[6] It is to the credit of the orthodox single taxers that they persistently urged heavier taxation of land to prevent this speculation, and for the most part, though not all, resisted the temptation to urge the benefit to land owners as a reason for taking this step in the direction of the single tax.[7]

III

Special land taxes may be devised so as to put a penalty upon either holding of land idle, large individual holdings of land, or absenteeism. New Zealand and British Columbia are the places of origin of this form of tax, and at present it is levied by the Australasian federal government and by several of the states, by the three western provinces of Canada and a number of their municipalities, and by the government of England (undeveloped land duty). The varieties of this tax are admittedly discriminatory in their aim, and provide either a special or super-tax upon "wild" or vacant land, rates graduated according to size or value of holding (or both), or additional taxes upon land held by absentees. The discriminatory rates have been low in some cases and there have sometimes been evasion and under-assessment, which, together with a rise in land values, have postponed or mitigated the effects of the taxes. But there can be no doubt that their tendency is to discourage large holdings, absenteeism, or holding of land idle.

The case, however, is not so clear in regard to the heavier land taxes which result from exemption of improvements. One of the strongest motives, perhaps the strongest, toward exemption has been the desire to penalize absenteeism or so-called "land monopoly," as for example in Edmonton, where the fact that the Hudson's Bay Company held for pasturage a tract of land more than a mile square at the heart of the city was the chief factor in leading the people to secure the exemption of improvements in 1904.[8] Heavier taxation of land has un-

6. *Cf.* Haig, *The Exemption of Improvements from Taxation in Canada and the United States,* pp. 274-76.
7. *Cf.* Young, *The Single Tax Movement in the United States,* pp. 205-06.
8. Haig, *op.* cit., pp. 90-91.

doubtedly had the effect of forcing to let go of their land many who held it at the time the heavier taxes were imposed or who discounted its effects inadequately. But it is very questionable whether the tax will have this continuing effect upon those who retain their land, or upon new purchasers who buy at prices reduced by the capitalized value of the tax. To these new purchasers the annual outlay is greater, but the capital outlay in the form of purchase price is correspondingly less. Possibly the psychological influence of continuing to pay out money might be of some significance. On the other hand, if a speculative situation be present speculation might even be encouraged by the lower purchase price, since it would be similar to "buying on a margin."[9] Also equally questionable with the argument that speculation would be permanently discouraged is the opposing argument that, after the first effects of the tax in forcing men to let go are spent, it would tend continuously to increase "congestion per acre" by closing up vacant spaces, by forcing more sky-scrapers, apartments and tenements, and by causing fewer single family residences and city gardens.[10]

The period of western Canada's great prosperity, during which the movement toward exemption of improvements made its greatest strides, was a period of the most intense speculation. Land values in the cities were rising rapidly, rates of taxation were usually low, and there seems to have been little general influence upon land speculation. Had it been believed that the tax would curtail speculative activity it is questionable if it would have been adopted, since the main motive aside from penalizing absentees and large holders was to stimulate development and increase the value of land.

There is need here both for further investigation as to the facts of land speculation, and for further analysis of its social effects.[11] Single taxers and many advocates of heavier taxation of land urge that land speculation retards development, raises the price of land, causes unemployment, brings about haphazard city growth, and is a source of unearned gains. On the other hand, it is urged that land speculation is part of the essential market mechanism for determining the value of land, for assisting to its most productive utilization, and for informing the investing public of opportunities. A related question here is the extent to which the lure of the unearned increment has caused the more rapid opening up of unused natural resources, e. g., the settlement of the West, and earlier building in cities.[12] And further, is this more rapid development desirable, or is it a social waste in diverting labor and capital from more productive to less productive lines?[13]

In this connection I may quote Professor Ely's recent words: "It is well worth while to investigate 'unused natural resources,' and attempt to develop a theory of unused land. How much land, after all, is unused and where is it? . . . For what is the unused land being held and in how many cases is it being held for better use than its possible present use? How can we use the land in cities which is not built upon? What are the various methods of preventing an undue spreading-out of cities?"[14]

IV

The circumstances of different localities affect importantly the desirability and the success of exemption of improvements and special taxation of land. In some cases in western Canada the plan was successful while in others it had unfortunate results.[15] It was successful when adopted in times of prosperity and increasing land values, as in Vancouver and most of the cities that adopted it, and it is worthy of note that it was not voluntarily adopted except at such times. When, however, these conditions were not present, as when the Alberta Town Act of 1912 required the towns to exempt all improvements, fiscal difficulties ensued.

There is great dissimilarity of economic conditions between the places where these taxes have been adopted and the older cities of the United States. England and Germany, Australasia and Canada have land and tax problems peculiar to themselves. This tax policy has commonly been urged in American cities as a remedy for congestion and bad housing, but it should be remembered that this was not the cause of its adoption in the countries where it obtains and that we have little evidence as to its effect in localities where congestion and housing are serious problems.

Let us summarize our discussion in a series of propositions. (1) The effects of the taxes are very difficult to measure, and both parties to the controversy have commonly been guilty of exaggeration. (2) Exemption of buildings tends to stimulate their construction, but at the expense of other lines of production or other localities. (3) General exemption of improvements cannot be expected to affect materially the total amount of wealth produced. (4) Discriminatory land taxes—applying not to all land but to idle land, large holdings or absentee holdings—tend to accomplish their aim. (5) Heavier general land taxes will not permanently discourage speculation, nor will they continuously increase congestion. (6) Circumstances alter cases.

9. *Cf.* Davenport, *Theoretical Issues in the Single Tax*, American Economic Rev., March, 1917, p. 16.

10. This argument carried much weight with the majority of the New York City Commission on Taxation of 1916. If this opinion be correct, a policy of zoning and districting, building height limitation, and tenement and building restriction must needs accompany exemption of improvements.

11. Such studies as Haig's *The Unearned Increment in Gary* are valuable. (*Political Science Quarterly*, March, 1917.)

12. This view is taken especially by Professors A. S. Johnson (*Atlantic Mon.*, January, 1914), T. S. Adams (*American Economic Rev.*, June, 1916), and R. M. Haig (*Quarterly Journal of Economics*, August, 1915).

13. *Cf.* Davenport in *American Economic Rev.*, March, 1917, pp. 23-26.

14. *Landed Property as an Economic Concept and as a Field of Research* (Proc. 29th Annual Meeting, 1916, Am. Econ. Ass'n, p. 29.)

15. *Cf.* Haig, *op. cit.*, pp. 277-80.

Thus far we have considered what results this tax policy may be expected to bring. But we have not yet considered the significance of the idea of "unearned increment" and the thought that land values are "a social product." Constructive proposals for asserting the recognized social interests here involved are the following: (1) The application of excess condemnation of land. (2) Taxation of future increases in city land values, correction being made for changes in the value of money. (3) Extension of the principle of special assessments so as to absorb as large a share as possible of increases in the value of land that result directly from public or quasi-public expenditures.

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